Unraveling the "Self-Insure" Myth

Why the Affluent Need LTC Coverage

Shawn Britt - CLU, CLTC
Director – Long-term Care Initiatives, Advanced Consulting Group

KEY HIGHLIGHTS

Affluent clients are more likely to need long-term care services[1]

Affluent clients will likely pay more for their LTC services[2]

Position clients with insuring the portfolio instead of the person

Discuss "Self-Assuring" instead of self-insuring

Many clients - and some financial professionals - think that insuring for long-term care (LTC) is something that is primarily needed by the middle class, and that more affluent clients can afford to "self-insure." Yet, there is no such thing as "self-insuring" since the definition of insurance is the immediate leveraging of money. Therefore, we are really talking about self-funding.

In truth, affluent clients should consider purchasing LTC coverage as well. For purposes of this paper, "affluent clients" will be considered singles with a current net worth of $2 million to $10 million, and couples with a net worth of $4 million to $20 million – with no perceived estate tax liabilities.

This client group, who can generally afford better health care, are more likely to deny the need for LTC. But studies show that the longer you live the more likely you will need LTC[1]; thus, in reality, the good health these clients enjoy may bring a greater chance of needing LTC in the future.

AFFLUENT CLIENTS MAY PAY MORE FOR LTC

In addition, LTC services are likely to cost more for affluent people. According to LTC industry expert Claude Thau, one might take the position that affluent clients are not only more likely than a middle class American to need LTC services in their lifetime, but the cost of their care may be more expensive[2]. The reasons for this assumption are:

a) The affluent tend to want better quality care, which will be more expensive.
b) The affluent are more likely to remain at home for care, regardless of the cost to do so.
c) Affluent people entering a facility are more likely to live in a more costly private room.
d) The affluent are more likely to select an upscale facility, or one in a more expensive area of town.
e) Affluent people may be less likely to receive care from their children. Their children often have higher profile and/or demanding jobs; and they may have relocated to another part of the country for career advancement.

Many of these clients hope they will never need care, but believe if they do, they can afford to pay for care out of their own pocket. Thus, a “traditional” LTC discussion centered around the risk of needing long-term care - and the need to insure that risk - may not go very far with affluent clients.

Remember, because the affluent tend to be more “healthy and in good shape” they are more prone to denying that LTC will be part of their future. What is more likely to have impact is discussing the consequences to the client’s portfolio if a LTC event comes at an inopportune time to market performance. In other words, concentrate the discussion on *insuring the portfolio*, not the person!

INSURING THE PORTFOLIO AGAINST AN UNEXPECTED LTC EVENT

These clients have likely lived through the Dot Com crash of 2000, the 2008 crash blamed on the real estate and banking industry debacle, and perhaps even the market crash referred to as “Black Monday” on Oct. 19, 1987. The following are conversation points you can bring up with your clients.

Ask your client if they believe the market could take yet another tumble.

With a likely answer of “yes,” your affluent client may better respond to a discussion about *“insuring the portfolio against an unexpected extended health care (LTC) event at a time when the market and account values are down.”*

And while one cannot predict how and when an account will recover from such events, a financial professional may want to remind the client that…… *“it could be hard to build your account value back up when you are withdrawing substantial amounts of money from your account to pay for the type of care you want and need. And that could equate to a double loss, because the money you withdraw can’t be grown back or grown forward.”*

These people can likely afford to self-fund their potential LTC expenses, yet *“there is no guarantee that such an event will come at a time that is convenient to market performance and your portfolio.”*

Remind the client that… *“it’s my job to discuss ways to help protect and grow your assets, not watch them decline.”*

Affluent clients may find a discussion centered around protecting the portfolio to be of more interest. It all may come down to what you suggest to insure.

Agree with your client that they can afford to self-fund, but then add that there is more than one way to self-fund, and that you would like to show them a more cost efficient way to do it. Have your affluent client think in terms of “SELF-ASSURE” instead of “self-insure.”

LTC solutions will be dictated by assets or income the client may have available and/or other financial needs the client should address.

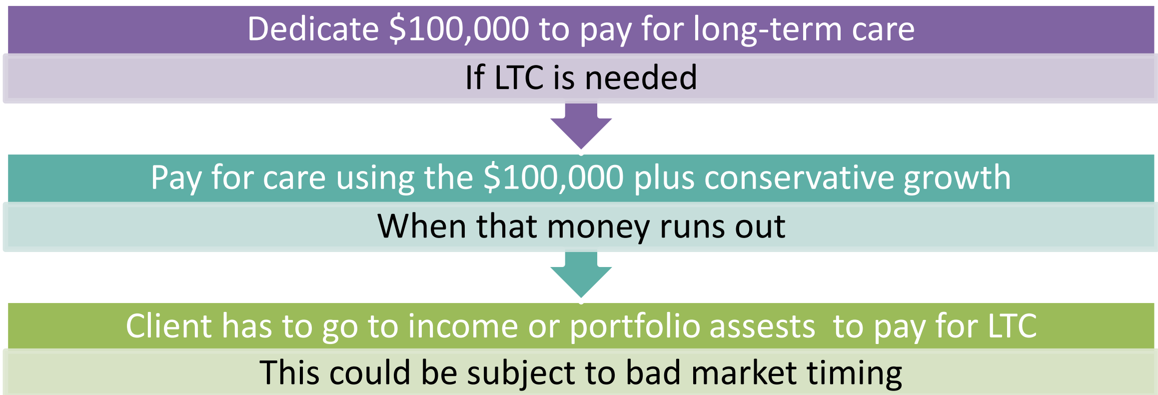
The client may have more need of life insurance coverage now with a need for LTC funding later. For those clients, a LTC Rider on a life insurance policy may provide the life insurance protection they need now, with the opportunity to transition the policy to LTC protection when that becomes the more prevalent need.

Or the client may be in a position where LTC specific coverage may be more appropriate. For those clients, a linked benefit LTC policy can provide benefit choices more in line with traditional LTC policies, but with the assurance that there will be no “use it or lose it” risk. Let’s look at an example using a ***cash indemnity*** linked benefit policy and how it would play out in a “self-insure” scenario vs. a “self-assure” scenario.

The following example uses smaller numbers for simplicity, and assumes a 55-year- old female, couples rate, non-tobacco, 6-year benefit duration, and no inflation option[3].

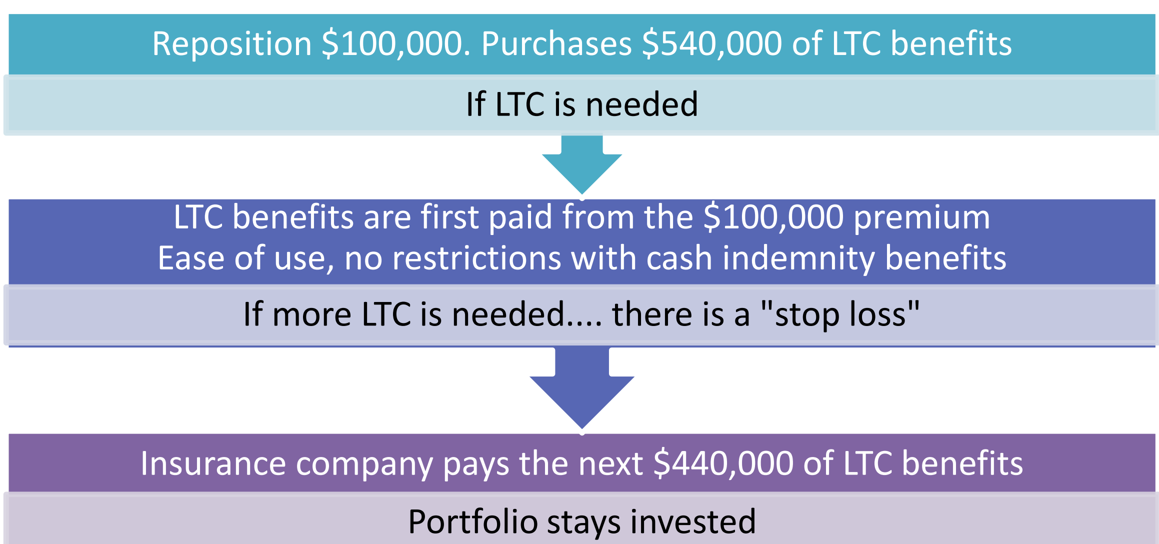
SELF-INSURING

A person intending to self-fund might consider placing $100,000 in a secure Money Market Account or other liquid investment. Upon needing LTC, they would spend that $100,000 (plus interest) on LTC expenses and have the total flexibility of cash to pay for any type of care they want, as well as for any other needs they may have. If they are still alive and in need of care when that $100,000 (plus interest) of savings is gone, this individual would have to tap their portfolio and other personal resources to continue paying LTC bills. And the need for these funds could come at a time when account values have suffered downturns.



“SELF-ASSURING”

However, purchasing a cash indemnity policy with no restrictions on how LTC benefits can be used will produce a different outcome. This same person places $100,000 into such a policy purchasing a LTC benefit pool of $540,000. Upon needing care, the first $100,000 of benefits would essentially be coming from their own premium dollars. But once that $100,000 is used up, the policy offers $440,000 in additional benefits available to pay for LTC expenses. And since the policy pays benefits by cash indemnity, the individual will maintain flexibility and control of care choices. By self-assuring, a “stop loss” is created for $440,000, whereas the self- insure plan would have no such insurance protection.



Summary

When discussing long-term care with affluent clients, the key to a successful conversation ending with your client taking action may be to center the discussion on portfolio success. Most individuals do not like seeing a portfolio value go down, for any reason. Showing affluent individuals and couples how the use of insurance can protect their portfolio with a "stop loss" against some LTC expenses may provide them with the incentive to purchase LTC coverage.

[1] WebMD – "Long-Term Care Insurance: What to Know" By Katy Hebbian - Medically Reviewed by Dan Brennan, MD on September 04, 2021

[2] Affluence is a Key Variable in Long-Term Care Considerations, Claud Thau, Ingram's Magazine Online, 2024

[3] Stated benefit amounts are based on hypothetical examples, and actual benefit amounts received will vary with changes to age and ratings.

• Not a deposit • Not FDIC or NCUSIF insured • Not guaranteed by the institution
• Not insured by any federal government agency • May lose value

Nationwide® is on your side

This material is not a recommendation to buy or sell a financial product or to adopt an investment strategy. Investors should discuss their specific situation with their financial professional.

Federal income tax laws are complex and subject to change. The information in this memorandum is based on current interpretations of the law and is not guaranteed. Neither Nationwide, nor its employees, its agents, brokers or registered representatives give legal or tax advice.

NFM-23733AO (03/24)